MUNICIPAL FIRE AND POLICE RETIREMENT SYSTEM OF IOWA

Financial Statements as of and for the Years Ended June 30, 2004 and 2003 and Related Independent Auditors' Reports

MUNICIPAL FIRE AND POLICE RETIREMENT SYSTEM OF IOWA

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Municipal Fire and Police Retirement System of Iowa

We have audited the accompanying statement of plan net assets of Municipal Fire and Police Retirement System of Iowa (System) as of June 30, 2004, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the System for the year ended June 30, 2003 were audited by other auditors whose report, dated September 12, 2003, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and Chapter 11 of the Code of Iowa. Those standards and Chapter 11 of the Code of Iowa require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such 2004 financial statements present fairly, in all material respects, the plan net assets of the System as of June 30, 2004, and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 6 is not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the System's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audit was conducted for the purpose of forming an opinion on the System's basic financial statements. The schedule of contributions from the employers and other contributing entities on page 16 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This supplementary information is the responsibility of the System's management. This supplementary information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2004, on our consideration of internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

September 24, 2004

Management's Discussion and Analysis

The following discussion and analysis of the Municipal Fire and Police Retirement System of Iowa's (System) financial performance provides an overview of the System's financial activities for the fiscal years ended June 30, 2004 and 2003. Please read in conjunction with the basic financial statements, which follow this discussion. These statements represent the current condition from an accounting perspective, but do not reflect the System's actuarial status. Refer to the System's actuarial valuation for the System's funding status regarding long term benefit obligations.

FINANCIAL HIGHLIGHTS

- System assets exceeded its financial liabilities at the close of the fiscal years 2004 and 2003 by $1,323,691,524 and $1,137,102,633 (reported as plan net assets), respectively. Net assets are held in trust to meet future benefit payments.

- Revenues for the year ended June 30, 2004 were $264,633,963, which is comprised of contributions of $56,386,664, net investment income of $208,173,687 and other income of $73,612. Revenues for the year ended June 30, 2003 were $104,865,505, which is comprised of contributions of $47,545,421, net investment income of $57,216,006, and other income of $104,078.

- Benefits paid were $75,624,902 and $70,242,050 for the years ended June 30, 2004 and 2003, respectively, a 7.7% increase from year to year.

THE STATEMENTS OF PLAN NET ASSETS AND THE STATEMENTS OF CHANGES IN PLAN NET ASSETS

This Annual Financial Report consists of two financial statements; The Statements of Plan Net Assets and The Statements of Changes in Plan Net Assets. These financial statements report information about the System, as a whole, and financial condition that should help answer the question: Is the System, as a whole, better off or worse off as a result of this fiscal year's experience? These statements include all assets and liabilities using the accrual basis of accounting. Under the accrual basis of accounting, all revenue and expenses are taken into account regardless of when cash is received or paid.

The Statements of Plan Net Assets present all of the System's assets and liabilities, with the difference between assets and liabilities reported as plan net assets. Over time, increases and decreases in plan net assets is one way to measure whether the System's financial position is improving or deteriorating. The Statements of Changes in Plan Net Assets present the change in plan net assets during the fiscal year.

FINANCIAL ANALYSIS

System assets as of June 30, 2004 and 2003 were approximately $1.46 billion and $1.28 billion, respectively, and were primarily comprised of investments, cash, receivables from brokers, and contributions due from employers. The $176,233,811, or 13.7%, increase in assets from June 30, 2003 to June 30, 2004 was primarily due to investment earnings and contributions.

Total liabilities as of June 30, 2004 and 2003 were $137,183,130 and $147,538,210, respectively, and were primarily comprised of payables for unsettled trades and obligations under securities lending. The $10,355,080, or 7.0%, decrease in liabilities from June 30, 2003 to June 30, 2004 was primarily due to a decrease in payables from the purchase of investments, partially offset by an increase in payables for securities lending.

System assets exceeded its liabilities at the close of fiscal year 2004 by $1,323,691,524. During the year ending June 30, 2004 plan net assets held in trust for pension benefits increased $186,588,891, or 16.4%, from the previous fiscal year, primarily due to investment earnings and contributions. This is in comparison to the previous fiscal year, when net assets increased by $32,600,210, or 3.0%, from the prior year.

Municipal Fire and Police Retirement System of Iowa
Condensed Statement of Plan Net Assets
(In Thousands)

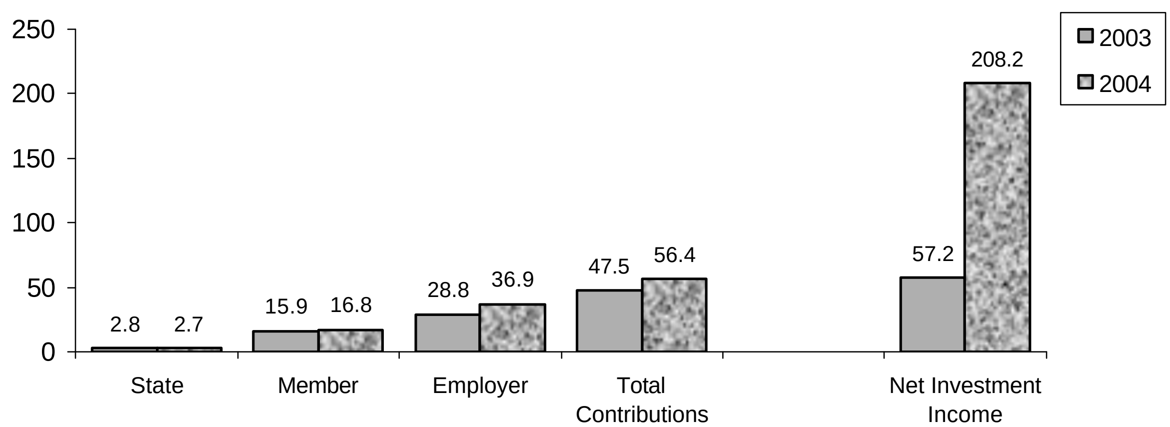
	2004	2003	Total Percentage Change
Assets:			
Cash	$ 1,253	$ 680	84.3 %
Investments	1,434,645	1,239,696	15.7
Receivables	24,832	44,225	(43.9)
Fixed assets	17	19	(10.5)
Other assets	127	21	504.8
Total Assets	1,460,874	1,284,641	13.7
Liabilities:			
Benefits and refunds payable	7	2	250.0
Investment management expenses payable	1,189	1,310	(9.2)
Administrative expenses payable	208	232	(10.3)
Payable for securities lending	94,111	69,675	35.1
Payable to brokers for unsettled trades	41,668	76,319	(45.4)
Total Liabilities	137,183	147,538	(7.0)
Plan Net Assets	$ 1,323,691	$ 1,137,103	16.4 %

REVENUES – ADDITIONS TO PLAN NET ASSETS

Reserves needed to finance retirement benefits are accumulated through the collection of contributions and earnings on investments. Contributions and net investment income/(losses) for the fiscal year 2004 totaled $264,560,351.

Contributions increased from the previous year by $8,841,243. This increase is primarily due to an increase in the employer contribution rate and increases in active members' earnable compensation. Net investment income increased from the previous year by $150,957,681. This increase is primarily due to the net appreciation in fair value of investments.

Additions to Plan Net Assets (In Millions)

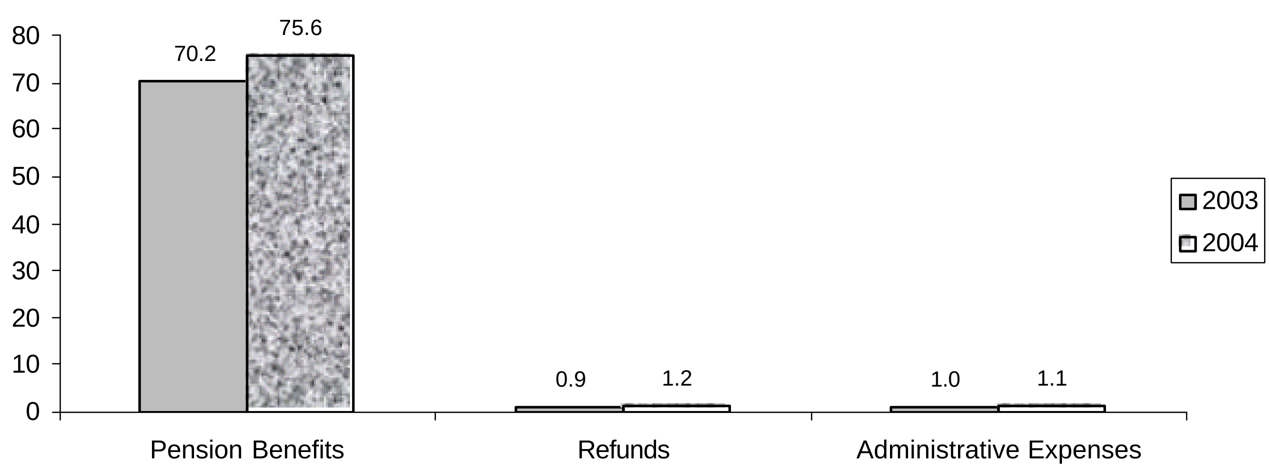


EXPENSES – DEDUCTIONS FROM PLAN NET ASSETS

The principal expenses of the System include the payment of pension benefits to retired members and beneficiaries, refund of contributions to former members, and the cost of administering the System. Total deductions for the fiscal year 2004 were $78,045,072, an increase of 8.0% over fiscal year 2003 deductions.

Pension benefit payments increased by $5,382,852, or 7.7%, from the previous year. Refund of contributions increased by $298,908, or 32.2%.

Deductions from Plan Net Assets (In Millions)



RETIREMENT SYSTEM AS A WHOLE

It is important to note the financial obligations established by the Iowa legislature in Iowa Code Chapter 411 are committed benefits, which are to be funded through the contributions made by the employers and the membership, in concert with the long-term return on investments. The "public policy" within Iowa has always been to meet the benefit commitments of the pension plans. The history of the plan benefits under Chapter 411 traces to 1934. The funding methods established by the legislature in the Iowa Code, whereby contributions are made from the individual employers and members, coupled with the "prudent person" concept for investment policy, provides the financial foundation for this public policy.

CONTACTING THE SYSTEM

This financial report is designed to provide the System's Board of Trustees, membership, and cities a general overview of the System's finances and to demonstrate accountability for assets. If you have any questions about this or need additional financial information, contact the System's office, 2836 104th Street, Des Moines, IA 50322.

MUNICIPAL FIRE AND POLICE RETIREMENT SYSTEM OF IOWA

Statements of Plan Net Assets

June 30, 2004 and 2003

	2004	2003
Assets		
Cash	$ 1,253,329	$ 679,729
Investments, at fair value:		
U.S. government obligations	95,093,618	50,390,907
U.S. corporate fixed income	191,304,987	215,778,205
U.S. equity securities	439,442,938	347,969,612
Foreign government obligations	19,937,891	13,788,231
Foreign corporate fixed income	30,349,541	29,245,228
Foreign equity securities	347,046,809	317,856,368
Short-term investments and currency positions	63,366,877	68,876,813
Securities lending short-term collateral investment pool	94,110,571	69,675,390
Real estate	140,376,732	123,153,643
Private equity	13,615,423	2,961,250
Total investments, at fair value	1,434,645,387	1,239,695,647
Receivables:		
Contributions	1,821,494	2,011,438
Investment income	2,660,138	2,751,033
Receivable from brokers for unsettled trades, net	20,350,293	39,462,364
Total receivables	24,831,925	44,224,835
Fixed assets (net of accumulated depreciation of $245,718 and $305,663 in 2004 and 2003, respectively)	17,114	18,974
Other assets	126,899	21,658
Total assets	1,460,874,654	1,284,640,843
Liabilities:		
Benefits and refunds payable	7,567	2,329
Investment management expenses payable	1,188,634	1,309,909
Administrative expenses payable	208,204	232,056
Payable for securities lending	94,110,571	69,675,390
Payable to brokers for unsettled trades, net	41,668,154	76,318,526
Total liabilities	137,183,130	147,538,210
Plan net assets held in trust for pension benefits	$1,323,691,524	$1,137,102,633

See notes to financial statements.

MUNICIPAL FIRE AND POLICE RETIREMENT SYSTEM OF IOWA

Statements of Changes in Plan Net Assets

Years ended June 30, 2004 and 2003

	2004	2003
Additions:		
Contributions:		
Member	$ 16,772,145	$ 15,871,489
Employer	36,868,735	28,857,743
State appropriations	2,745,784	2,816,189
Total contributions	56,386,664	47,545,421
Investment income:		
Interest	11,081,035	8,729,582
Dividends	14,600,575	8,698,750
Securities lending	1,078,430	757,740
Net appreciation in fair value of investments	188,373,224	42,966,450
Total investment income	215,133,264	61,152,522
Less investment expenses:		
Securities lending	788,830	572,434
Management fees and other	6,170,747	3,364,082
Net investment income	208,173,687	57,216,006
Service credit actuarial adjustments	72,247	56,013
Other income	1,365	48,065
Total increase	264,633,963	104,865,505
Deductions:		
Benefit payments	75,624,902	70,242,050
Refund payments	1,227,062	928,154
Administrative expenses	1,095,066	987,421
Disability expenses	78,579	83,033
Other	19,463	24,637
Total deductions	78,045,072	72,265,295
Net increase	186,588,891	32,600,210
Plan net assets held in trust for pension benefits:		
Beginning of year	1,137,102,633	1,104,502,423
End of year	$1,323,691,524	$1,137,102,633

See notes to financial statements.

MUNICIPAL FIRE AND POLICE RETIREMENT SYSTEM OF IOWA

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2004 AND 2003

1. PLAN DESCRIPTION

General

The Municipal Fire and Police Retirement System of Iowa (System) was created under Chapter 411.35 of the Code of Iowa to replace 87 separate fire and police retirement systems from 49 cities and 1 county in Iowa (Separate Systems). Effective January 1, 1992, the Separate Systems were terminated, and the respective entities were required to transfer assets to the System equal to their respective accrued liabilities (as measured by the System's actuary). Upon transfer of the assets, the System assumed all membership, benefits rights and financial obligations of the Separate Systems.

The System is the administrator of a multi-employer, cost sharing, defined benefit pension plan for the exclusive benefit of eligible employees of participating cities (substantially all full-time employees of the respective cities' fire and police departments). It is governed by a nine-member board of trustees who are appointed to the board by police and fire associations and by the Iowa League of Municipalities. The eight voting members select a private citizen to serve as the ninth voting member. The board is authorized by the state legislature to make investments, pay benefits, set contributions rates, hire staff and consultants and perform all necessary functions to carry out the provisions of the Code of Iowa. The System is separate and apart from state government and is not included in the state's financial statements.

At June 30, 2004, the System was comprised of 49 cities covering 3,775 active members; 252 terminated members entitled to benefits; and 3,419 retired firefighters, police officers, bailiffs, and eligible beneficiaries across Iowa.

Funding

Member - Member contribution rates are set by state statute. In accordance with House File 2418, Act of the 1994 General Assembly, to establish compliance with the Federal Older Workers Benefit Protections Act, the contribution rate was 9.35% for the years ended June 30, 2004 and 2003.

Employer – Employer contribution rates are based upon an actuarially determined normal contribution rate and set by state statute. The required actuarially determined contributions are calculated on the basis of the aggregate actuarial cost method set forth in Chapter 411 of the Code of Iowa. The normal contribution rate is provided by state statute to be the actuarial liabilities of the plan less current plan assets, with such total divided by 1 percent of the actuarially determined present value of prospective future compensation of all members, further reduced by member contributions and state appropriations. Under the Code of Iowa the employer's contribution rate cannot be less than 17% of earnable compensation. The contribution rate was 20.48% and 17.00% for the years ended June 30, 2004 and 2003, respectively.

State Appropriations – State appropriations are approved by the state legislature and may further reduce the employer's contribution rate, but not below the minimum statutory contribution rate of 17.00%.

Benefits

Participating members are entitled to the benefit provisions in effect on the member's date of termination. The following is a summary of the System benefit provisions as of June 30, 2004 and 2003:

Retirement - Members with 4 or more years of service are entitled to pension benefits beginning at age 55. Full service retirement benefits are granted to members with 22 years of service, while partial benefits are available to those members with 4 to 22 years of service based on the ratio of years completed to years required (22 years). Members with less than 4 years of service are entitled to a refund of their contribution only, with interest for the period of employment.

Benefits are calculated based upon the member's highest 3 years of compensation. The average of these 3 years becomes the member's average final compensation. The base benefit is 66 percent of the member's average final compensation. Additional benefits are available to members who perform more than 22 years of service (2 percent for each additional year of service, up to a maximum of 8 years). Survivor benefits are available to the beneficiary of a retired member according to the provisions of the benefit option chosen plus an additional benefit for each child. Survivor benefits are subject to a minimum benefit for those members who chose the basic benefit with a 50 percent surviving spouse benefit.

Disability and Death - Disability coverage is broken down into two types, accidental and ordinary. Accidental disability is defined as permanent disability incurred in the line of duty, with benefits equivalent to the greater of 60 percent of the member's average final compensation or the member's service retirement benefit calculation amount. Ordinary disability occurs outside the call of duty and pays benefits equivalent to the greater of 50 percent of the member's average final compensation, for those with 5 or more years of service, or the member's service retirement benefit calculation amount, and 25 percent of average final compensation for those with less than 5 years of service.

Death benefits are similar to disability benefits. Benefits for accidental death are 50 percent of the average final compensation of the member plus an additional amount for each child, or the provisions for ordinary death. Ordinary death benefits consist of a pension equal to 40 percent of the average final compensation of the member plus an additional amount for each child, or a lump-sum distribution to the designated beneficiary equal to 50 percent of the previous year's earnable compensation of the member or equal to the amount of the member's total contributions plus interest.

Benefits are increased (escalated) annually in accordance with Iowa Code Chapter 411.6 which states a standard formula for the increases.

Traumatic Personal Injury - The surviving spouse or dependents of an active member who dies due to a traumatic personal injury incurred in the line of duty receives a $100,000 lump-sum payment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation -The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The System has elected to apply only applicable Financial Accounting Standards Board (FASB) Statements and interpretations issued on or before November 30, 1989, that do not contradict Governmental Accounting Standards Board (GASB) pronouncements.

The System prepared its financial statements using the accrual basis of accounting. It recognizes member and employer contributions as revenues in the month member earnings are paid. Benefits and refunds are recognized as expenses when payable. Expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made.

New Accounting Pronouncements – In March of 2003, the GASB issued Statement No. 40 (GASB 40), *Deposit and Investment Risk Disclosures.* GASB 40, which is required to be adopted by the System in its fiscal year ending June 30, 2005, establishes new disclosures for investments that have fair values that are highly sensitive to changes in interest rates. The System does not expect the adoption of this pronouncement to have a significant effect on the operations or financial position of the System.

Use of Estimates **-** The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts in the financial statements. Actual results could differ from those estimates.

Investments **-** The System's securities are reported at fair value. Where appropriate, the fair value includes estimated disposition costs. Interest income is recognized when earned. Dividend income is recognized on the ex-dividend date. Gains or losses on stocks and bonds are recognized on an average cost basis calculated separately for each investment manager. Other gains and losses are recognized on an identified cost basis. Gains and losses on sales and exchanges are recognized on the trade date. The fair values of securities held at June 30 are determined by using the closing price listed on national securities exchanges and quoted market prices provided by independent pricing services. For commingled funds, the net asset value is determined and certified by the commingled fund manager. Investments in real estate and private equities are valued based on amounts established by fund managers which are subject to annual audit.

Fixed Assets **-** Fixed assets are stated at cost. Depreciation is recognized on a straight-line basis over estimated useful lives of three to ten years.

Income Taxes – The System has a tax determination letter from the Internal Revenue Service stating that it qualifies under the provision of Section 401 of the Internal Revenue Code and is exempt from federal and state income taxes.

3. CASH

The table below presents a summary of cash balances of the System at June 30, 2004 and 2003:

	2004	2003
Bank balance at June 30:		
Insured	$ 100,000	$100,000
Uninsured and uncollateralized	1,153,329	579,729
Carrying amount at June 30	$1,253,329	$679,729

4. INVESTMENTS

Investment Policy

The investment authority, as prescribed by the Code of Iowa, is governed by the "prudent person rule." This rule requires that an investment be made with the care, skill, prudence, and diligence, under the circumstances then prevailing, that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an entity of a like character with like aims. Within the "prudent person" framework, the board of trustees has adopted investment guidelines for the System's investment program.

Investment Summary

The System's investments in securities are categorized in the table below to give an indication of the custodial credit risk level. GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements,* defines "securities" and standard categories of custodial risk.

A security, for purposes of classification in the table below, is a transferable financial instrument that evidences ownership or creditorship. Investments in pooled short-term investment funds and commingled investment funds are not considered securities for purposes of custodial credit risk classification. Such investments are shown in the following table as "non-categorized." Pending purchases of investments are shown as "non-categorized" because the securities purchased have not been delivered and cannot be registered.

In addition, investments held by broker-dealers under the collateralized securities lending program are categorized based upon the nature of the collateral. If the collateral received is cash, then the investments lent are "non-categorized" since the cash is reflected on the Statements of Plan Net Assets. If the collateral received is securities, then the investments lent are categorized according to the characteristics of the collateral received. In the following tables, investments for which cash has been received are listed as "non-categorized."

Securities are divided among the following two categories indicating the type of custodial risk:

- Category 1: Insured or registered, or securities held by the System or its agent in the System's name.

- Non Categorized: Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent, but not in the System's name.

The following table presents a summary of the System's investments and related category of custodial risk at June 30, 2004 and 2003:

Category 1	**2004**	**2003**
U.S. bonds	$ 155,095,844	$ 158,551,177
Foreign bonds	19,901,912	21,175,062
U.S. equity securities	65,915,226	108,176,590
Foreign equity securities	140,418,124	83,254,936
	381,331,106	371,157,765
Non-categorized		
U.S. commingled bond investment funds	131,302,761	107,617,935
U.S. commingled stock investment funds	373,527,712	239,793,022
Foreign commingled stock funds	206,628,685	234,601,432
Foreign commingled bond funds	30,385,520	21,858,397
Real estate	140,376,732	123,153,643
Private equity	13,615,423	2,961,250
Short-term investments and currency positions	63,366,877	68,876,813
Securities lending short-term investment collateral funds	94,110,571	69,675,390
	1,053,314,281	868,537,882
Total	$1,434,645,387	$1,239,695,647

The System's investments, which represented five percent or more of plan net assets as of June 30, 2004 and 2003 are as follows:

	2004	**2003**
Mellon Capital Russell 1000 Index Fund	$176,330,692	$ -
State Street World Equity Index Fund	-	109,217,886
State Street Russell 1000 Index Fund	-	91,140,560

The System is committed, as of June 30, 2004, to invest approximately $221,412,000 in certain private equity, real estate, and commingled funds.

5. SECURITIES LENDING PROGRAM

Under the provisions of state statutes and the System's investment policy, the System lends securities, both equity and fixed income, to securities firms on a temporary basis primarily through the master trustee, Mellon Trust. The System receives a portion of the earnings (split) for all loans and retains the right to amounts equal to all interest and dividend payments while securities are on loan.

Security loan agreements are collateralized by cash, U.S. government issued securities or irrevocable bank letters of credit. Domestic loans are initially collateralized at 102 percent of the market value plus any accrued interest. If the loans fall below 100 percent collateralization, the loan is marked back to 102 percent. Loans of non-U.S. securities are initially collateralized at 105 percent and are marked back to 105 percent if they fall below 105 percent. Notwithstanding the forgoing, however, standard industry practices may from time to time preclude the lending agent from obtaining additional collateral in connection with loans of global securities by the close of the next business day, unless the value of collateral held by the lending agent in connection with such loans is less than 100 percent.

Mellon Bank Global Securities Lending, a division of Mellon Trust, invests all of the cash collateral generated from the System's securities loans into a collective cash collateral pool. The System holds an undivided share of the collateral provided by the borrower of its securities. The System cannot pledge nor sell the collateral unless the borrower fails to return the securities borrowed.

All securities loans can be terminated on demand by either the lender or the borrower. When a loan is closed, the securities on loan are returned to the System and the collateral associated with the loan is returned to the borrower. The lending agent shall hold the System harmless for any losses, cost or expenses arising as a result of negligence, misconduct or fraud by the lending agent.

The System had no credit risk as a result of its securities lending program as the collateral held exceeded the market value of the securities lent. Securities lent are included in the Statements of Plan Net Assets.

	2004	2003
Market value of collateral received:		
Cash	$ 93,952,155	$ 68,079,766
U.S. Government obligations	158,416	1,595,624
	$ 94,110,571	$ 69,675,390
Market value of securities lent	$ 92,295,738	$ 67,600,050

6. DERIVATIVES

The System's investment managers may invest in derivative securities as permitted by their contracts. A derivative security is an investment whose payoff depends upon the value of an underlying asset such as bond and stock prices or a market index. Derivative financial instruments involve, to varying degrees, credit risk and market risk.

Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to terms. To limit credit risk, each investment manager screens potential counter-parties and establishes and maintains an approved list of acceptable firms which meet a high level of credit-worthiness.

Market risk is the possibility that a change in interest or currency rates will cause the value of a financial instrument to decrease or become more costly to settle. The market risk associated with derivatives, the prices of which are constantly fluctuating, is managed by imposing contractual requirements on the investment managers as to the types, amounts and degree of risk they may undertake. Investment managers' derivative activities are reviewed on a periodic basis to monitor compliance with the contracts. The System does not purchase derivatives with borrowed funds and does not allow the leveraging of the portfolios.

The System's derivative investments may include foreign currency forward contracts, options, futures and collateralized mortgage obligations. Foreign currency forward contracts are used to hedge against the currency risk in foreign stock and fixed income security portfolios. The remaining derivative securities are used to improve yield, adjust the duration of the fixed income portfolio, or to hedge changes in interest rates.

A forward contract is an agreement to buy or sell a specific currency position or security at a specified delivery or maturity date for an agreed-upon price. As the fair value of the forward contract fluctuates, the System records an unrealized gain or loss. A summary of net forward currency contracts outstanding at June 30, 2004 and 2003, are as follows:

	2004	**2003**
Long Forward currency positions	$56,941,267	$31,978,034
Short Forward currency positions	57,747,094	31,845,949
Unrealized gain (loss)	$ (805,827)	$ 132,085

A financial option is an agreement that gives one party the right, but not the obligation, to buy or sell a specific amount of an asset for a specified price, called the strike price, on or before a specified expiration date. The same leverage prohibitions which apply to forwards and futures are applicable to options. There were no financial options outstanding at June 30, 2004 or 2003.

Contractual amounts, which represent the fair value of the underlying assets the derivative contracts control, are often used to express the volume of these transactions but do not reflect the extent to which positions may offset one another. These amounts do not represent the much smaller amounts potentially subject to risk. Every position which is sold or purchased must be backed by assets, since the investment managers are not allowed to leverage the portfolio.

Required Supplementary Information

Schedule of Contributions from the Employers and Other Contributing Entities

	Annual Required Contributions			Percentage Contributed		
Year Ended June 30,	Employer	Member	State	Employer	Member	State
2004	$36,868,735	$16,772,145	$2,745,784	100%	100%	100%
2003	28,857,743	15,871,489	2,816,189	100%	100%	100%
2002	28,542,482	15,696,746	2,816,189	100%	100%	100%
2001	27,345,914	15,039,155	2,942,724	100%	100%	100%
2000	26,170,758	14,393,323	2,942,724	100%	100%	100%
1999	24,994,129	13,748,076	2,942,724	100%	100%	100%

Notes to Required Supplementary Information

Valuation Date — July 1, 2004 and 2003

Actuarial cost method — Aggregate

Asset valuation method — Fair value adjusted for a four-year amortization of asset gains (losses)

Note: The System is not required to present the schedule of funding progress under the requirements of Governmental Accounting Standards Board Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans," because the System uses the aggregate cost method to determine its aggregate actuarial liabilities. This method does not identify or separately amortize unfunded actuarial liabilities.

Actuarial assumptions:

- Investment rate of return — 7.50 percent
- Projected salary increases — 4.50 to 12.59 percent

Mortality table — Effective with the July 1, 1999 actuarial valuation, the System began a 12 year phase-in of the 1994 Group Annuity Mortality Table from the 1971 Group Annuity Mortality Table. However, if the Cities' Contribution Rate exceeds 17% after reflecting an additional year of the phase-in, the phase-in will be deferred one year.

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Trustees
Municipal Fire and Police Retirement System of Iowa

We have audited the financial statements of Municipal Fire and Police Retirement System of Iowa (System) as of and for the year ended June 30, 2004, and have issued our report thereon dated September 24, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and Chapter 11 of the Code of Iowa.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards.*

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Trustees, management, and regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

September 24, 2004